

STATE OF DELAWARE
OFFICE OF
AUDITOR OF ACCOUNTS

CAESAR RODNEY SCHOOL DISTRICT
STUDENT ACTIVITY ACCOUNTS INVESTIGATION
FOLLOW-UP REPORT

AS OF APRIL 30, 2006

FIELDWORK END DATE: MAY 9, 2006

R. THOMAS WAGNER, JR., CGFM, CFE
AUDITOR OF ACCOUNTS

Townsend Building, Suite 1
401 Federal Street
Dover, DE 19901
TELEPHONE (302) 739-4241
FACSIMILE (302) 739-2723
www.state.de.us/auditor/index.htm

EXECUTIVE SUMMARY

On August 11, 2004, the Office of Auditor of Accounts (AOA) was contacted by Caesar Rodney School District (the District) to investigate the embezzlement of student activity funds by an employee and the forgery of checks belonging to the District. AOA conducted a special investigation and issued a report for the Caesar Rodney School District Student Activity Accounts, dated December 30, 2004 (12/30/04 CRSD Report).

Based on the results of the investigation, AOA recommended that the District:

- Develop and implement district-wide internal control policies to be followed by each school for the operation of the student activity accounts.
- Monitor the adherence to internal control procedures for the handling of cash and the disbursement of funds at all schools in the District.
- Implement district-level management review and oversight of the operation of student activity accounts.
- Require student clubs to maintain their own ledgers to record cash receipts, cash disbursements, and their account balance.
- Require receipts to be issued to student clubs for cash and checks received.

The District's plan for corrective action was as follows:

- To purchase and require the use of standard accounting software to record student club activity.
- To establish a protocol for the proper segregation of duties to ensure that an individual who is independent of the process sign student activity club checks and review monthly reconciliations.
- To require club sponsors or organizers to maintain ledgers to record all transactions and to maintain supporting documentation for transactions.
- To have the Assistant Superintendent review randomly selected bank reconciliations.

AOA completed a follow-up engagement to determine if the District adequately responded to the aforementioned recommendations and corrective action plan.

CONCLUSION

The District has initiated action to address issues identified in the 12/30/04 CRSD Report; however, the action taken is inadequate to address the issues in the 12/30/04 CRSD Report. The District should take further action to address the issues in the 12/30/04 CRSD Report.

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AUDIT AUTHORITY

Title 29, Del. C., c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency and economy; and
5. Such data, information and recommendations as the Auditor of Accounts may deem advisable and necessary.

BACKGROUND

On August 11, 2004, the Office of Auditor of Accounts (AOA) was contacted by Caesar Rodney School District (the District) to investigate the embezzlement of student activity funds by an employee and the forgery of checks belonging to the District. AOA conducted a special investigation and issued a report for the Caesar Rodney School District Student Activity Accounts, dated December 30, 2004 (12/30/04 CRSD Report).

The investigation included a review of the student activity accounting records and internal controls at F. Niel Postlethwait Middle School. AOA subsequently expanded the scope of the investigation to include the student activity accounting records at W. Reily Brown Elementary School, Caesar Rodney High School, and Dover Air Force Base Middle School. AOA concluded that the allegations were substantiated and that approximately \$26,818 was misappropriated from student activity accounts.

Based on the results of the investigation, AOA recommended that the District:

- Develop and implement district-wide internal control policies to be followed by each school for the operation of the student activity accounts.
- Monitor the adherence to internal control procedures for the handling of cash and the disbursement of funds at all schools in the District.
- Implement district-level management review and oversight of the operation of student activity accounts.
- Require student clubs to maintain their own ledgers to record cash receipts, cash disbursements, and their account balance.
- Require receipts to be issued to student clubs for cash and checks received.

The District's plan for corrective action was as follows:

- To purchase and require the use of standard accounting software to record student club activity.
- To establish a protocol for the proper segregation of duties to ensure that an individual who is independent of the process sign student activity club checks and review monthly reconciliations.
- To require club sponsors or organizers to maintain ledgers to record all transactions and to maintain supporting documentation for transactions.
- To have the Assistant Superintendent review randomly selected bank reconciliations.

AOA completed a follow-up engagement to determine if the District adequately responded to the aforementioned recommendations and corrective action plan.

OBJECTIVE, SCOPE, AND METHODOLOGY

OBJECTIVE

The objective of the follow-up engagement was to identify and evaluate the adequacy of management actions in response to the findings and recommendations included in the 12/30/04 CRSD Report.

SCOPE

The scope of the engagement, a non-audit service, was limited to a follow-up of the 12/30/04 CRSD Report. The previous findings and recommendations included the areas of Policies and Procedures, Automated Software, Segregation of Duties, Club Records, and Reconciliation Review. Testing of the status of the previous recommendations was performed for the period from July 1, 2005 through April 30, 2006.

METHODOLOGY

AOA developed procedures to address the aforementioned objective. Procedures consisted of interviews and inquiry of key personnel, inspection and confirmation of documentation, and observations.

STATUS OF CORRECTIVE ACTION PLAN

Following is the District's corrective action plan for findings and recommendations in the 12/30/04 CRSD Report, as well as the status of the corrective action plan.

District Corrective Action Plan	Status
<p>The District will purchase, at its expense, upgraded software that will be used to electronically handle the record keeping and accounting for all internal fund accounts. A feature of this automated software will be automated deposit slips that will be produced in the system, thereby automatically posting the deposit balance to the account and producing a document for the activity coordinator or sponsor. One of the advantages of this software is its ability to quickly reconcile account balances and thereby eliminating the possibility of human error. Additionally, [the Assistant Superintendent has] asked the technology department to give the central office oversight into each activity software account so [the District Office] would have the ability to view, unannounced, all activity or transactions that have been performed on that account.</p>	<p>Partially implemented. The District purchased automated software and installed the software at some of the schools during the last week of <u>April 2006</u>. The District is in the process of implementing the use of this software at all schools within the District.</p>
<p>The District will establish a protocol for segregation of duties. The person handling the internal account, while they may use their reconciliation feature, will not have final oversight over the reconciliation. The reconciliation will have to be reviewed by the building principal.</p>	<p>Partially implemented. The District has developed district-wide policies and procedures for the handling of student activity accounts; however, those policies need to be expanded to include a protocol for segregation of duties. AOA determined there is proper segregation of duties regarding the preparation and review of bank reconciliations for the student activity accounts.</p>
<p>The individual handling internal fund accounts will not be a signer on any check from the internal funds account. Those duties will be assigned to independent individuals.</p>	<p>Partially implemented. Checks are still signed by the individual handling the student activity accounts; however, most of the checks are signed by a second person that is independent of handling student activity accounts. Instances were noted in which (1) a facsimile stamp was used and (2) checks were only signed by the individual handling student activity accounts.</p>

STATUS OF CORRECTIVE ACTION PLAN (CONTINUED)

District Corrective Action Plan	Status
Club sponsors or organizers will be required to document their activities and paperwork with attachments of documentation, such as deposit slips. This will be part of their record keeping responsibility.	Not implemented. Some Schools do not require student clubs to maintain their own ledgers. Club sponsors'/organizers' records are inadequate.
[The Assistant Superintendent] will request randomly selected bank reconciliations and supporting documentation to ensure the compliance to all of the above recommendations is being maintained.	Not implemented. The District office receives bank reconciliations monthly; however, there is no evidence that the District office compares the reconciliations to supporting documentation. Review of bank reconciliations alone would not provide the District with enough information for review and oversight of the operation of student activity accounts.

STATUS OF RECOMMENDATIONS

Following is the status of AOA's recommendations to the District per the 12/30/04 CRSD Report:

Recommendation	Status
Develop and implement district-wide internal control policies to be followed by each school for the operation of the student activity accounts.	Partially implemented. The District has district-wide internal control policies; however, the policies need to be strengthened.
Monitor the adherence to internal control procedures for the handling of cash and the disbursement of funds at all schools in the District.	Not implemented. The District office receives bank reconciliations monthly. Review of bank reconciliations alone would not provide the District with enough information for review and oversight of the operation of student activity accounts.
Implement district-level management review and oversight of the operation of student activity accounts.	Not implemented. The District office receives bank reconciliations monthly. Review of bank reconciliations alone would not provide the District with enough information for review and oversight of the operation of student activity accounts.
Require student clubs to maintain their own ledgers to record cash receipts, cash disbursements, and their account balance.	Not implemented. Some Schools do not require student clubs to maintain their own ledgers. Club sponsors'/organizers' records are inadequate.
Require receipts to be issued to student clubs for cash and checks received.	Partially implemented. Not all schools issue receipts to student clubs for cash and checks received.

CONCLUSION

The District has initiated action to address issues identified in the 12/30/04 CRSD Report; however, the action taken is inadequate to address the issues in the 12/30/04 CRSD Report. The District should take further action to address the issues in the 12/30/04 CRSD Report.

DISTRICT RESPONSE

The District acknowledges that additional action is required in order to address the issues in the 12/30/04 CRSD Report. The District's response to the status of the follow-up engagement is as follows:

- Installation of updated software will be completed prior to July 1, 2006 with the exception of Caesar Rodney High School, which in the opinion of the auditors and the District, should continue to operate its proprietary system. The High School's methodology of sponsor recordkeeping will be used as a "best practices" model for all other District schools.

Originally, the District investigated remote oversight of the School's internal funds accounts. However, this feature will not be required since review and compliance testing will be conducted at each school location.

- The District will strengthen its Internal Funds procedure documentation to specifically address a protocol for segregation of duties and to reinforce sponsor/organizer record keeping responsibility.
- After discussions with the auditors, the District has revised its Corrective Action Plan. Two live signatures will be required for every check; one of those signatures may be of the individual managing the Internal Funds account. Facsimile stamps will not be used on Internal Funds checks.
- While the District Office receives and reviews the bank reconciliations from each School's internal funds account monthly, it realizes that supporting documentation in the school building would provide a more complete picture of the School's activity and compliance with District established procedures. Future reviews will be conducted in the Schools.

DISTRIBUTION OF REPORT

Copies of this report have been distributed to the following public officials:

Executive Branch

The Honorable Ruth Ann Minner, Governor, State of Delaware

Legislative Branch

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Carl C. Danberg, Attorney General, Office of the Attorney General

Caesar Rodney School District

Dr. Harold E. Roberts, Superintendent

Dr. Victor P. Valeski, Assistant Superintendent